

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Harbor Beach	County Huron
Fiscal Year End 6/30/06	Opinion Date 8/23/06	Date Audit Report Submitted to State 11/21/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Yellow Book Report	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.		Telephone Number 989-453-3122	
Street Address 7274 Hartley Street		City Pigeon	State MI
		Zip 48755	
Authorizing CPA Signature	Printed Name Brian Hazard, CPA		License Number 1101014007

**CITY OF HARBOR BEACH
HARBOR BEACH, MICHIGAN**

**FINANCIAL REPORT
JUNE 30, 2006**

CITY OF HARBOR BEACH, MICHIGAN

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
REPORT OF INDEPENDENT AUDITORS	i - ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii - xi
BASIC FINANCIAL STATEMENTS	1
Government-Wide Financial Statements:	
Statement of Net Assets	2 - 3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of Governmental Fund Balances to Governmental Activities Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets – Proprietary Funds	9
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	10 - 11
Statement of Cash Flows - Proprietary Funds	12 - 14
Statement of Net Assets – Fiduciary Fund	15
Statement of Activities – Fiduciary Fund	16
Notes to the Financial Statements	17 - 28
REQUIRED SUPPLEMENTAL INFORMATION	29
Schedule of Revenue, Expenditures and Change in Fund Balance - Budget and Actual - General Fund	30 - 33

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
SUPPLEMENTAL INFORMATION	34
Nonmajor Governmental Funds:	
Combining Balance Sheet	35
Combining Statement of Revenue, Expenditures and Change in Fund Balance	36
Schedule of Revenue, Expenditures and Change in Fund Balances - Budget and Actual - Major Street and Trunkline Fund	37 - 38
Schedule of Revenue, Expenditures and Change in Fund Balances - Budget and Actual - Local Street Fund	39 - 40
Proprietary Fund Types:	
Schedule of Revenue and Expenses – Budget and Actual – Sewer Fund	41
Schedule of Revenue and Expenses – Budget and Actual – Water Supply Fund	42
Schedule of Revenue and Expenses – Budget and Actual – Recreation Fund	43
Schedule of Revenue and Expenses – Budget and Actual – Internal Service Fund	44
Enterprise Funds - Schedule of Capital Assets and Accumulated Depreciation	45
Water Supply and Distribution System Bonds – Schedule of Principal and Interest Requirements - 1993 Revenue Bonds	46 – 47
Public Improvement Bonds – Schedule of Principal and Interest Requirements – 2000 General Obligation Bonds	48
Capital Improvement Bonds – Schedule of Principal and Interest Requirements – 2004 General Obligation Bonds	49
2003 Installment Purchase Agreement – Schedule of Principal and Interest Requirements	50
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	51

Report of Independent Auditors

To the City Council
City of Harbor Beach
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harbor Beach, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Harbor Beach, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harbor Beach, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2006, on our consideration of the City of Harbor Beach, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Report of Independent Auditors (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harbor Beach, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

August 23, 2006

CITY OF HARBOR BEACH

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR - July 1, 2005 to June 30, 2006

The management of the City of Harbor Beach presents this narrative financial information to readers of the City's financial statements. It contains an objective overview and analysis of the financial position of the City as of and for the twelve month period ended on June 30, 2006. As the management of the City, we encourage readers to consider information contained in this discussion and contained in the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- > The City's assets exceeded its liabilities at the end of the fiscal year by \$14,980,999
- > Net assets decreased by a total of \$238,248, or by approximately 1.6% of last year's total net assets of \$15,219,247
- > Net assets of business-type activities - enterprise funds increased by \$61,928 and net assets for governmental-type activities - internal service fund (Equipment Fund) increased by \$60,462 during the fiscal year
- > The total fund balance of the governmental funds decreased by \$203,755. Of this total, the City's General Fund showed a decrease of only \$17,934, while other nonmajor governmental funds showed a decrease of \$185,821. This large decrease was due to an outgoing operating transfer of \$311,693 for a capital improvement project. Revenue for this project (\$427,807) was received in the previous fiscal year.

FINANCIAL STATEMENT OVERVIEW

This Management Discussion and Analysis serves to introduce to the reader the City of Harbor Beach's essential financial statements. These financial statements consist of three components, as follows:

- > **Government-wide financial statements**
- > **Fund financial statements**
- > **Notes to the financial statements**

The above financial information will provide the reader with a general understanding of the City's current financial condition. Also, this report contains supplementary information in addition to the basic financial statements which provides a more detailed understanding of the City's finances.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, similar to private sector businesses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The **Statement of Net Assets** presents information on all of the assets and liabilities of the City, with the differences between the two identified as net assets. Over a given period of time, increases or decreases in net assets can serve as a useful indicator of an improving or declining financial position of the City.

The **Statement of Activities** shows changes in net assets that occurred during the most recent fiscal year. These changes were recorded on an accrual basis, which distinguishes between the time when a financial transaction occurs and when payment is actually made. An example of accrual accounting is when debt interest payments are scheduled between the fiscal year end. The statement of activities will show additional interest expense for the time period between the last interest payment and the end of the fiscal year as an accrual.

The government-wide financial statements are broken down into two activities: governmental activities and business-type activities. Governmental activities are primarily supported through tax and intergovernmental revenue. Business-type activities are primarily supported through user fees and charges.

Governmental activities for the City of Harbor Beach include general governmental functions, such as financial administration (City Council and administrative staff), general administration, major and local street and sidewalk maintenance, public improvements, planning, police, property assessment, zoning administration, and sanitation. Business-type activities include sewer, water, and recreation.

Activities not included in this report are the Harbor Beach Area Fire Department and the East Huron Ambulance Service. Although the City contributes financially to both entities and has representation on their respective boards, the City has no legislative control over their financial activity.

The government-wide financial statements are found as listed in the table of contents.

Fund Financial Statements

A fund is a set of closely related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The City of Harbor Beach uses fund accounting to demonstrate compliance with legal financial requirements, like all state and local governments. All City funds can be categorized as either governmental or proprietary funds.

Government Funds account for essentially the same activities as the governmental activities in the government-wide financial statements, but with a narrower focus. Governmental funds concentrate on near-term inflows and outflows of financial resources and the balances of spendable resources available to the government at the end of the fiscal year. This information can be useful in evaluating the government's short-term financing requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

Fund Financial Statements (continued)

Comparing similar information presented in the government-wide financial statements for the governmental activities with that presented in governmental fund financial statements can provide useful information because of the focus of the two approaches. With the long-term focus of the government-wide financial statements, a reader may be able to better understand the long-term effects of the near term financing decisions. To aid in the comparison, both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance show a reconciliation between the governmental fund financial statements to the governmental activities in the government-wide statements.

The City of Harbor Beach uses two different individual governmental funds. Of these two, information is shown separately for the General Fund and for the other nonmajor governmental funds. There are also two, nonmajor funds identified as the Major Street and Trunkline Fund and Local Street Fund. These are combined into a special revenue category. The City adopts an annual appropriated budget for all its governmental funds.

The basic governmental fund financial statements can be found as listed in the table of contents.

Proprietary Funds include enterprise funds and an internal service fund. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. The Internal Service Fund is used to report activities that provide goods or services to other funds or departments of the City.

The enterprise funds maintained by the City of Harbor Beach include water, sewer, and recreation. The City uses the Internal Service Fund to account for vehicles and equipment activities. Because they charge fees to outside users of their systems, the enterprise funds are included in the business-type activities column of the government-wide financial statements. The Internal Service Fund, which accounts for equipment and vehicles that support City functions, is included under the governmental activities column.

Proprietary funds present the same information as in government-wide statements, except in more detail. The fund financial statements for proprietary funds provide separate information for the Water, Sewer, and Recreation Funds, which are considered to be major funds of the City of Harbor Beach.

The basic proprietary fund financial statements can be found as listed in the table of contents.

Notes to the Financial Statements contain additional financial information to give the reader a complete understanding of the information contained in the government-wide and fund financial statements. Although these notes provide detailed explanation and information related to the financial statements, this information is typically easy for the reader to follow. Notes to the financial statements are located after the financial statements as listed in the table of contents.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INFORMATION

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund financial statements and schedules are listed in the table of contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF HARBOR BEACH'S NET ASSETS

	Governmental Activities	Business-Type Activities	June 30, 2006 Total	June 30, 2005 Total
Current assets	\$ 2,288,728	\$ 775,800	\$ 3,064,528	\$ 2,785,371
Capital assets	7,270,365	11,037,184	18,307,549	18,808,005
Restricted and other assets	102,645	1,201,569	1,304,214	1,487,565
Total assets	<u>\$ 9,661,738</u>	<u>\$ 13,014,553</u>	<u>\$ 22,676,291</u>	<u>\$ 23,080,941</u>
Current liabilities	\$ 104,244	\$ 326,701	\$ 430,945	\$ 339,766
Long-term liabilities	1,131,795	6,132,552	7,264,347	7,521,926
Total liabilities	<u>\$ 1,236,039</u>	<u>\$ 6,459,253</u>	<u>\$ 7,695,292</u>	<u>\$ 7,861,692</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 6,595,184	\$ 4,749,087	\$ 11,344,271	\$ 11,656,287
Restricted	102,645	1,080,417	1,183,062	1,400,471
Unrestricted	1,727,871	725,796	2,453,667	2,162,488
Total net assets	<u>\$ 8,425,699</u>	<u>\$ 6,555,300</u>	<u>\$ 14,980,999</u>	<u>\$ 15,219,246</u>

As shown in the statement of net assets provided above, the largest portion, by far, of the net assets of the City of Harbor Beach is its investment in capital assets. The seventy-five and seven tenths percent (75.7%) of total net assets represents the City's investment in land and land improvements; curb, gutter and sidewalks; roads and storm drains; water and sewer lines; streetlights and signals; buildings, and machinery and equipment, less any related outstanding debt that was used to acquire these assets. The City of Harbor Beach uses these capital assets to provide essential services to citizens who live, work or visit the City. These assets, by design, are not available for future spending. Additionally, even though these capital assets are reported net of any related debt, resources needed to repay this debt must come from other sources, as these assets cannot be used to satisfy their related obligations.

Of the remaining net assets of the City, seven and nine-tenths percent (7.9%) are subject to external restrictions on how they may be expended (restricted assets). The balance of net assets, which total sixteen and four-tenths percent (16.4%) can be used to meet the City's ongoing obligations to its creditors and citizens (unrestricted assets).

MANAGEMENT DISCUSSION AND ANALYSIS

ACTIVITIES, GOVERNMENTAL AND BUSINESS-TYPE

Net assets of governmental activities decreased by \$300,176 for the year ended June 30, 2006. This amount is fairly significant as it comprises about three and one-half percent (3½%) of beginning net assets for governmental activities, which was \$8,725,875.

Net assets for business-type activities increased by \$61,928 for the year ended June 30, 2006. This amount is not significant as it comprises less than one percent (1%) of beginning net assets for business-type activities, which was \$6,493,372. However, it is significant as it shows an increase for the second year in a row. The increase is due to continued increases in user fees to support water and sewer service. The City Council has adopted a resolution calling for annual increases in sewer rates of three and one-half percent (3.5%) and annual increases of water rates of two and one-half percent (2.5%) for the fiscal year ended June 30, 2006. Additionally, the City historically has not funded depreciation, and the reader should take this into account when analyzing business-type activities, as depreciation is a significant portion of expenses.

CITY OF HARBOR BEACH'S CHANGES IN NET ASSETS

For the year ended June 30, 2006

	Governmental Activities	Business-Type Activities	June 30, 2006 Total	June 30, 2005 Total
Revenue:				
Program revenues:				
Charges for services	\$ 100,675	\$ 1,570,262	\$ 1,670,937	\$ 1,767,584
Operating grants and contributions		98,389	98,389	618,666
Capital grants and contributions		26,600	26,600	275,000
General revenues:				
Property taxes	1,079,174	312,556	1,391,730	1,417,861
State shared revenue	351,169		351,169	390,129
Unrestricted investment earnings	88,204	49,527	137,731	66,069
Miscellaneous	18,764	38,221	56,985	40,229
Gain (Loss) on sale of capital assets		4,640	4,640	(1,286)
Total revenue	<u>1,637,986</u>	<u>2,100,197</u>	<u>3,738,182</u>	<u>4,574,252</u>
Expenses:				
General government	754,444		754,444	761,178
Public safety	414,069		414,069	393,751
Highways and public improvements	393,315		393,315	397,747
Sanitation	89,212		89,212	84,664
Interest on long-term debt	27,661		27,661	29,567
Water		797,315	797,315	923,041
Sewer		788,086	788,086	772,284
Parks and recreation		707,328	707,328	689,636
Total expenses	<u>1,678,701</u>	<u>2,292,730</u>	<u>3,971,430</u>	<u>4,051,868</u>
Change in net assets before transfers	(40,715)	(192,533)	(233,248)	522,384
Transfers	(259,461)	254,461	(5,000)	
Change in net assets	(300,176)	61,928	(238,248)	522,384
Net assets - Beginning	8,725,875	6,493,372	15,219,247	15,172,979
Prior period adjustment				(476,117)
Net assets - Ending	<u>\$ 8,425,699</u>	<u>\$ 6,555,300</u>	<u>\$ 14,980,999</u>	<u>\$ 15,219,246</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF CITY OF HARBOR BEACHS FUNDS

The City of Harbor Beach's governmental funds provide information on the short-term resource inflows and outflows and account balances at the end of the fiscal year. The total fund balance is a measure of total available resources and the unreserved portion of this total is a measure of the available spendable resources as of June 30, 2006.

For the year ended June 30, 2006, the City's governmental funds reported a combined fund balance of \$1,673,903, a decrease in \$203,755 from June 30, 2005.

The General Fund is the main operating fund for the City. As of June 30, 2006, the fund balance in the General Fund is \$896,795. At the start of the fiscal year on July 1, 2005, the fund balance was \$914,729, resulting in a decrease in fund balance of \$17,934. This is due to continued operating transfers of \$27,000 to other funds. This amount has decreased over the last three fiscal years. It is important to note that revenue from other financing sources decreased this fiscal year, from \$241,849 last fiscal year to \$79,232 this fiscal year. It is also important to note that revenue in the General Fund has remained virtually the same as the last few fiscal years (about \$7,000 less this fiscal year from the previous fiscal year). Total expenditures decreased by about \$179,000.

The City's proprietary funds provide the same type of financial information found in the government-wide financial statements, but in more detail. Total net assets in business-type activities were \$6,555,300 and for governmental activities (Internal Service Fund) were \$853,932.

For business-type activities, the following information is provided for the appropriate enterprise fund:

<u>FUND</u>	<u>TOTAL ASSETS</u>	<u>TOTAL LIABILITIES</u>	<u>TOTAL NET ASSETS</u>
Sewer	\$4,150,021	\$1,126,794	\$3,023,277
Water	\$7,251,643	\$5,374,177	\$1,877,467
Recreation	\$1,892,153	\$ 264,348	\$1,627,805

For governmental activities, the following information is provided for the Internal Service Fund:

<u>FUND</u>	<u>TOTAL ASSETS</u>	<u>TOTAL LIABILITIES</u>	<u>TOTAL NET ASSETS</u>
Equipment	\$856,843	\$2,911	\$853,932

NON-MAJOR GOVERNMENTAL FUNDS

The City's nonmajor governmental funds, which include the special revenue funds of Major Street and Trunkline and Local Street Funds, performed well during the 2005-06 fiscal year. The Major Street and Trunkline Fund showed an increase in fund balance of \$58,775 and the Local Street Fund showed an increase in fund balance of \$64,394. This is due to a decrease in expenditures in both funds.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund for the City continued to struggle in the 2005-06 fiscal year. Although total revenue remained steady overall, with a minor decrease of approximately \$7,000 from the previous fiscal year, and total expenditures decreased significantly by approximately \$179,000, from the previous fiscal year, the end result was a decrease in fund balance of \$17,934. Although less than the decrease in fund balance last fiscal year of \$25,773, the downward trend of the City's fund balance for the General Fund continues.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City of Harbor Beach's investment, net of related debt, in capital assets for its governmental and business-type activities combined totaled \$11,344,271 at the end of the fiscal year. The types of assets in this category are land, land improvements, buildings, machinery and equipment, parks and recreation facilities, roads (including curb and gutter, sidewalks and storm drains), street lights, traffic signals, and water and wastewater distribution and collection systems and facilities. The City's investment in capital assets equals over seventy-five percent (75%) of total net assets.

	Governmental Activities	Business-Type Activities	June 30, 2006 Total	June 30, 2005 Total
Land	\$ 2,661,392	\$ 66,530	\$ 2,727,922	\$ 2,727,922
Land improvements	172,621		172,621	150,257
Buildings	588,627	4,258,057	4,846,684	4,846,684
Office furnishings	11,870		11,870	11,870
Equipment	1,206,196	7,099,589	8,305,785	8,227,700
Infrastructure	7,625,190		7,625,190	7,559,585
Water system		4,847,347	4,847,347	4,622,000
Sewer system		2,254,364	2,254,364	1,913,401
Marina improvements		2,652,640	2,652,640	2,652,640
Campground improvements		1,025,975	1,025,975	1,024,514
Construction in progress		41,264	41,264	291,852
Accumulated depreciation	(4,995,530)	(11,208,583)	(16,204,113)	(15,220,419)
Net book value	<u>\$ 7,270,366</u>	<u>\$ 11,037,183</u>	<u>\$ 18,307,549</u>	<u>\$ 18,808,006</u>

The City of Harbor Beach's debt consists of a 1993 Water Supply and Distribution System Bond (\$3,185,000), a 2000 Public Improvement Bond (\$2,435,000), a Harbor Beach Consolidated Drain Assessment (\$410,445), a 2003 Installment Purchase Agreement (\$475,000), and a 2004 Capital Improvement Bond (\$880,000). Normal payments of principal and interest in accordance with the associated debt service schedules were made on a timely basis during the fiscal year.

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Budget

The current fiscal year budget (2006-07) is at \$3,994,000, which is \$326,000 more than the 2005-06 fiscal year budget of \$3,668,000. This increase is due to slight increases in both revenue (due to a small increase in property values and user fees) and also an increase in expenditures (cost of living). The state revenue sharing payment to the City is projected to level off after several years of decreases. The state economy is still in decline as auto related manufacturing jobs continue to be eliminated.

The current fiscal year budget for the City contains few major expenditures or projects for 2006-07. New tennis courts for Davidson Park are planned to be constructed with \$60,000 budgeted for this project. A sanitary sewer retention basin construction project, however, is slated for construction starting the summer of 2007 through the fall of 2008. This project will be completed under an Administrative Consent Order with the DEQ to address sanitary sewer overflows and is estimated now to cost approximately \$4,000,000. The City has successfully applied for and received a DEQ Sanitary Sewer Revolving Loan for this project which will be financed at a low interest rate of 1.6%. The debt service will be paid through an increase in sewer rates to all City residential, business and industrial customers.

The City plans to encourage economic development in the City by taking advantage of several state and federal grant and loan programs, where applicable. The City was awarded a \$10,000 Coastal Management Grant for completion of a Waterfront Development Plan for the City. The Plan is anticipated to be approved by the City Council by December 2006. The Waterfront Development Plan for the City is expected to lead to major development projects along the City's Lake Huron shoreline, increasing both the number of jobs in the community as well as the tax base in the community.

Examples of other recent grant and loan programs the City has utilized include the Community Development Block Grant (CDBG) program, Urban Land Assembly (ULA) loan program, Natural Resources Trust Fund program and Land and Water Conservation Fund grants. Economic Development programs the City has taken advantage of are the establishment of a Local Development Finance Authority (LDFA), a Downtown Development Authority (DDA), and a Brownfield Redevelopment Authority (BRA). The City continues its efforts to attract new business and industry to the community.

Rates

The City continues to improve its revenue stream for the Water and Sewer funds. The City has implemented a rate increase of two and one-half percent (2.5%) and three and one-half percent (3.5%) for water and sewer rates, respectively. The water rate was not increased for the current fiscal year as the water fund has performed very well the past year. The water rate is projected to return to annual increases as in previous years, starting with the 2007-08 fiscal year. The City continues to pick up new customers in Sand Beach Township and the Village of Forestville, who are billed at one and one-half times (1½) the City residential rate. Negotiations for the sale of water to Forester Township in Sanilac County continue at this time, which may lead to adding additional customers in 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

REQUESTS FOR INFORMATION

This financial report is designed to give the reader a basic understanding of the finances for the City of Harbor Beach. Any questions or requests for financial information contained in this report may be obtained by contacting the Finance Officer, City of Harbor Beach, 766 State Street, Harbor Beach, Michigan 48441.

BASIC FINANCIAL STATEMENTS

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2006

	GOVERNMENTAL BUSINESS-TYPE		TOTALS
ASSETS	ACTIVITIES	ACTIVITIES	
Cash	\$ 1,927,289	\$ 842,719	\$ 2,770,008
Accounts receivable	27,878	195,318	223,196
Taxes receivable	17,974		17,974
Accrued interest		467	467
Due from other governments	36,328	4,000	40,328
Inventory		12,560	12,560
Internal balances	279,264	(279,264)	-
Nondepreciated capital assets	2,661,392	66,530	2,727,922
Capital assets	9,604,503	22,137,973	31,742,476
Less accumulated depreciation	(4,995,530)	(11,208,583)	(16,204,113)
Construction in progress		41,264	41,264
Restricted assets:			
Cash:			
Water and sewer project	102,645		102,645
Wastewater bond reserve		24,776	24,776
Wastewater treatment replacement		379,542	379,542
Water system revenue bond		74,415	74,415
Water bond reserve		282,079	282,079
Water equipment replacement		319,605	319,605
Operation and maintenance		90,030	90,030
Deferred charges		31,122	31,122
TOTAL ASSETS	\$ 9,661,738	\$ 13,014,553	\$ 22,676,291

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2006

	GOVERNMENTAL BUSINESS-TYPE		
	<u>ACTIVITIES</u>	<u>ACTIVITIES</u>	<u>TOTALS</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 6,842	\$ 72,841	\$ 79,683
Accrued payroll and related taxes	24,301	21,496	45,797
Accrued interest payable	9,886	42,142	52,028
Accrued vacation and sick leave	88,585	54,442	143,027
Drain assessment payable	410,445		410,445
Payable from restricted assets:			
Current maturities of debt	63,214	190,222	253,436
Long-term bonds payable	632,765	6,078,110	6,710,875
Total liabilities	<u>1,236,039</u>	<u>6,459,253</u>	<u>7,695,292</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	6,595,184	4,749,087	11,344,271
Restricted for:			
Debt service		381,270	381,270
Capital projects	102,645	699,147	801,792
Unrestricted	1,727,871	725,796	2,453,667
Total net assets	<u>\$ 8,425,699</u>	<u>\$ 6,555,300</u>	<u>\$ 14,980,999</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF ACTIVITIES JUNE 30, 2006

	PROGRAM REVENUES			NET (EXPENSE) REVENUES & CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
<u>Governmental Activities</u>						
General government	\$ 754,444	\$ 1,942			\$ (752,502)	\$ (752,502)
Public safety	414,069				(414,069)	(414,069)
Highways and public improvements	393,315	15,088			(378,227)	(378,227)
Sanitation	89,212	83,645			(5,567)	(5,567)
Interest on long-term debt	27,661				(27,661)	(27,661)
<u>Total governmental activities</u>	<u>1,678,701</u>	<u>100,675</u>			<u>(1,578,026)</u>	<u>(1,578,026)</u>
<u>Business-Type Activities</u>						
Water	797,315	684,553	\$ 92,983		\$ (19,780)	(19,780)
Sewer	788,086	414,314		\$ 26,600	(347,173)	(347,173)
Parks and recreation	707,328	471,395	5,406		(230,527)	(230,527)
<u>Total business-type activities</u>	<u>2,292,730</u>	<u>1,570,262</u>	<u>98,389</u>	<u>26,600</u>	<u>(597,479)</u>	<u>(597,479)</u>
<u>Total Government</u>	<u>\$ 3,971,430</u>	<u>\$ 1,670,937</u>	<u>\$ 98,389</u>	<u>\$ 26,600</u>	<u>(1,578,026)</u>	<u>(2,175,505)</u>
<u>General Revenue:</u>						
Property taxes					1,079,174	1,391,731
State shared revenues					351,169	351,169
Unrestricted investment earnings					88,204	137,731
Miscellaneous					18,764	56,986
Gain on sale of capital assets					(259,461)	4,640
Transfers - net						(5,000)
Total general revenues and transfers					1,277,850	1,937,256
Change in net assets					(300,176)	(238,248)
Net assets - beginning					8,725,875	15,219,247
Net assets - ending					\$ 8,425,699	\$ 14,980,999

The accompanying notes are an integral part of the financial statements.

CITY OF HARBOR BEACH, MICHIGAN
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>GENERAL</u>	OTHER NONMAJOR GOVERNMENTAL <u>FUNDS</u>	TOTAL GOVERNMENTAL <u>FUNDS</u>
<u>ASSETS</u>			
Cash	\$ 591,910	\$ 752,183	\$ 1,344,093
Accounts receivable	27,878		27,878
Due from other funds	198,512		198,512
Due from other governments	2,129	34,199	36,328
Note receivable - Other funds	108,678		108,678
TOTAL ASSETS	<u>\$ 929,107</u>	<u>\$ 786,382</u>	<u>\$ 1,715,489</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 5,062	\$ 78	\$ 5,140
Accrued payroll and related taxes	22,119	1,975	24,094
Due to other funds	5,131	7,221	12,352
Total liabilities	<u>32,312</u>	<u>9,274</u>	<u>41,586</u>
Fund balances:			
Unreserved, reported in:			
General Fund	896,795		896,795
Special Revenue Funds		674,463	674,463
Capital Projects		102,645	102,645
Total fund balances	<u>896,795</u>	<u>777,108</u>	<u>1,673,903</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 929,107</u>	<u>\$ 786,382</u>	<u>\$ 1,715,489</u>

CITY OF HARBOR BEACH, MICHIGAN

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES
TO GOVERNMENTAL ACTIVITIES NET ASSETS
JUNE 30, 2006**

Total governmental fund balances	\$ 1,673,903
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. The cost of the assets is \$12,265,895 less the accumulated depreciation of \$4,995,530.	7,270,365
Interest on general obligation and lease revenue bonds are not accrued in governmental funds but rather is recognized as an expenditure when due.	(9,886)
Delinquent taxes receivable are not current financial resources for the governmental fund.	17,974
Internal service fund is not included in the governmental funds.	668,355
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,195,010)
Net assets - governmental activities	<u>\$ 8,425,699</u>

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>GENERAL</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:			
Taxes	\$ 1,013,919		\$ 1,013,919
Licenses and permits	2,175		2,175
Intergovernmental	190,521	\$ 228,504	419,025
Charges for services	169,587		169,587
Fines and forfeitures	9,487		9,487
Miscellaneous	<u>57,561</u>	<u>28,627</u>	<u>86,188</u>
TOTAL REVENUE	<u>1,443,250</u>	<u>257,131</u>	<u>1,700,380</u>
EXPENDITURES:			
Current:			
Legislative	10,431		10,431
Elections	198		198
Financial and administration	273,200	6,750	279,950
General	517,176		517,176
Police department	335,251		335,251
Planning	10,486		10,486
Street lighting	58,959		58,959
Sanitation	87,478		87,478
Streets		124,509	124,509
Capital outlay	160,085		160,085
Debt service:			
Principal	33,897		33,897
Interest	<u>26,254</u>		<u>26,254</u>
TOTAL EXPENDITURES	<u>1,513,415</u>	<u>131,259</u>	<u>1,644,674</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(70,165)</u>	<u>125,872</u>	<u>55,706</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	79,232		79,232
Operating transfers (out)	<u>(27,000)</u>	<u>(311,693)</u>	<u>(338,693)</u>
TOTAL OTHER FINANCING SOURCES (USES)	52,232	(311,693)	(259,461)
EXCESS OF REVENUE AND OTHER SOURCES (UNDER) EXPENDITURES AND OTHER USES	<u>(17,934)</u>	<u>(185,821)</u>	<u>(203,755)</u>
FUND BALANCE - JULY 1	914,729	962,929	1,877,658
FUND BALANCE - JUNE 30	<u>\$ 896,795</u>	<u>\$ 777,108</u>	<u>\$ 1,673,903</u>

CITY OF HARBOR BEACH, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - governmental funds \$ (203,755)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the *Statement of Activities*, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 113,354	
Depreciation expense	<u>(328,541)</u>	(215,187)

Some expenses reported in the *Statement of Activities* do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

6,695

The net revenue of certain activities of internal service fund is reported with governmental activities.

50,925

Delinquent property taxes are not considered "available" revenues and are not recorded in the governmental funds.

Beginning taxes receivable	(20,574)	
Ending taxes receivable	<u>17,974</u>	(2,600)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. In the current period, these amounts are:

Bond repayments	91,359	
Change in accrued interest on bonds	<u>(27,612)</u>	
Net effect		63,747

Change in net assets of governmental activities \$ (300,176)

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2006**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SEWER	WATER	RECREATION	TOTALS	
ASSETS					
Current assets:					
Cash	\$ 430,083	\$ 329,655	\$ 82,981	\$ 842,719	\$ 685,841
Accounts receivable	47,932	137,387	10,000	195,318	
Accrued interest receivable			467	467	
Due from other governments			4,000	4,000	
Due from other funds					12,227
Inventory			12,560	12,560	
Total current assets	<u>478,014</u>	<u>467,042</u>	<u>110,008</u>	<u>1,055,064</u>	<u>698,068</u>
Noncurrent assets:					
Capital assets	7,640,375	9,279,299	5,284,829	22,204,503	1,044,298
Less accumulated depreciation	(4,447,334)	(3,238,801)	(3,522,448)	(11,208,583)	(885,523)
Construction in progress	21,500		19,764	41,264	
Deferred charges	14,388	16,734		31,122	
Total noncurrent assets	<u>3,228,929</u>	<u>6,057,232</u>	<u>1,782,145</u>	<u>11,068,306</u>	<u>158,775</u>
Restricted assets:					
Cash:					
Wastewater treatment replacement	379,542			379,542	
Wastewater bond reserve	24,776			24,776	
Water system revenue bond		74,415		74,415	
Water bond reserve		282,079		282,079	
Water equipment replacement		319,605		319,605	
Operation and maintenance	38,759	51,271		90,030	
Total restricted assets	<u>443,077</u>	<u>727,370</u>		<u>1,170,447</u>	
TOTAL ASSETS	<u>\$ 4,150,021</u>	<u>\$ 7,251,643</u>	<u>\$ 1,892,153</u>	<u>\$ 13,293,818</u>	<u>\$ 856,843</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 22,282	\$ 43,255	\$ 7,304	\$ 72,841	\$ 1,703
Due to other funds	32,491	34,104	130,793	197,388	1,000
Accrued payroll and related taxes	6,408	6,222	8,866	21,496	208
Accrued interest payable	7,894	34,248		42,142	
Accrued vacation and sick leave	18,106	27,629	8,707	54,442	
Current maturities of debt	39,332	150,890		190,222	
Total current liabilities	<u>126,513</u>	<u>296,348</u>	<u>155,670</u>	<u>578,531</u>	<u>2,911</u>
Noncurrent liabilities:					
Long-term bonds payable	1,000,281	5,077,829		6,078,110	
Notes payable - other funds			108,678	108,678	
Total noncurrent liabilities	<u>1,000,281</u>	<u>5,077,829</u>	<u>108,678</u>	<u>6,186,788</u>	
Total liabilities	<u>1,126,794</u>	<u>5,374,177</u>	<u>264,348</u>	<u>6,765,319</u>	<u>2,911</u>
NET ASSETS					
Invested in capital assets, net of related debt	2,174,927	811,779	1,762,381	4,749,087	158,775
Restricted for:					
Debt service	24,776	356,494		381,270	
Capital projects	379,542	319,605		699,147	
Unrestricted	443,982	389,589	(134,576)	698,994	695,157
Total net assets	<u>\$ 3,023,227</u>	<u>\$ 1,877,467</u>	<u>\$ 1,627,805</u>	<u>6,528,498</u>	<u>\$ 853,932</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds				26,802	
Net assets of business-type activities				<u>\$ 6,555,300</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET
ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SEWER	WATER SUPPLY	RECREATION	TOTALS	
OPERATING REVENUE:					
Charges for services	\$ 411,154	\$ 606,047	\$ 307,826	\$ 1,325,027	\$ 138,189
Permits	3,160	1,950		5,110	
Sale of materials and labor		16,556	163,569	180,125	
Fire hydrant rental		60,000		60,000	
TOTAL OPERATING REVENUE	414,314	684,553	471,395	1,570,262	138,189
OPERATING EXPENSES:					
Salaries	158,601	165,190	146,181	469,972	10,624
Administrative cost	32,000	32,000	16,000	80,000	1,000
Fringe benefits	71,273	84,434	50,699	206,406	5,141
Cost of merchandise & petroleum sold			125,758	125,758	
Supplies	8,204	6,408	38,801	53,412	10,802
Office expense		633	1,177	1,810	
Postage	841		646	1,487	
Clothing	64			64	
Chemicals	20,440	21,692		42,132	
Professional services	4,193	9,428	2,250	15,871	1,350
Contracted services	91,912	6,123	1,923	99,958	
Event charges			139	139	
Special event expenses			10,467	10,467	
Community promotion			2,338	2,338	
Sanctioning fees			1,148	1,148	
Umpire fees			750	750	
Printing and publishing			1,820	1,820	
Telephone	1,025	607	3,101	4,733	896
Transportation	1,496	398	1,686	3,580	17,004
Insurance	6,083	5,660	7,490	19,233	4,881
Utilities	17,457	62,948	71,325	151,730	
Building repairs		276		276	
Equipment maintenance	5,271	2,038	14,689	21,998	2,624
Maintenance of mains	1,260	7,066		8,326	
Equipment replacement	540			540	
Repairs and maintenance	3,376	2,984		6,360	
Equipment rental	4,875	9,774	20,539	35,188	
Penalties and fines	1,500			1,500	
Licenses and fees	3,656		303	3,959	
Sales tax			8,539	8,539	
Diesel tax			4,086	4,086	
Education and training	908	611		1,519	
Dues and subscriptions	150		875	1,025	
Depreciation	293,267	160,013	160,615	613,895	47,412
Amortization	4,384	1,527		5,911	
Bank charges - Credit cards			5,405	5,405	
TOTAL OPERATING EXPENSES	732,776	579,810	698,750	2,011,335	101,734
OPERATING INCOME (LOSS)	(318,461)	104,743	(227,355)	(441,073)	36,455
NONOPERATING REVENUE (EXPENSES):					
Interest income	18,678	30,256	593	49,527	24,007
Gain on sale of asset	121		4,519	4,640	
Property tax levy	120,900	191,656		312,556	
Contributions	26,600	92,983	38,213	157,796	
Grant income			5,406	5,406	
Interest expense			(14,135)	(14,135)	

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET
ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	<u>SEWER</u>	<u>WATER SUPPLY</u>	<u>RECREATION</u>	<u>TOTALS</u>	
NONOPERATING REVENUE (EXPENSES): (CONTINUED)					
Bond interest expense	(56,491)	(219,853)		(276,344)	
Paying agent fees	(141)	(302)		(443)	
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>109,667</u>	<u>94,740</u>	<u>34,596</u>	<u>239,003</u>	<u>24,007</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>(208,795)</u>	<u>199,484</u>	<u>(192,759)</u>	<u>(202,070)</u>	<u>60,462</u>
OTHER FINANCING SOURCES:					
Operating transfers in	58,100	174,361	22,000	254,461	
TOTAL OTHER FINANCING SOURCES	<u>58,100</u>	<u>174,361</u>	<u>22,000</u>	<u>254,461</u>	
CHANGE IN NET ASSETS	<u>(150,695)</u>	<u>373,845</u>	<u>(170,759)</u>	<u>52,391</u>	<u>60,462</u>
TOTAL NET ASSETS - BEGINNING	<u>3,173,922</u>	<u>1,503,622</u>	<u>1,798,564</u>		<u>793,470</u>
TOTAL NET ASSETS - ENDING	<u>\$ 3,023,227</u>	<u>\$ 1,877,467</u>	<u>\$ 1,627,805</u>		<u>\$ 853,932</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds				<u>9,537</u>	
Changes in net assets of business-type activities				<u>\$ 61,928</u>	

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>				<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER SUPPLY</u>	<u>RECREATION</u>	<u>TOTALS</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 438,928	\$ 613,321	\$ 461,395	\$ 1,513,644	\$ 125,962
Receipts from interfund services		60,000		60,000	(36,432)
Payments to suppliers of goods and services	(117,774)	(51,659)	(219,225)	(388,658)	(1,000)
Payments to interfund services	(36,875)	(41,774)	(36,539)	(115,188)	(10,940)
Payments to employees	(156,933)	(165,826)	(145,747)	(468,506)	(5,141)
Payments for fringe benefits	(71,273)	(84,434)	(50,699)	(206,406)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>56,073</u>	<u>329,629</u>	<u>9,185</u>	<u>394,885</u>	<u>72,449</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating transfer in	58,100	174,361	22,000	254,461	
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>58,100</u>	<u>174,361</u>	<u>22,000</u>	<u>254,461</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of fixed assets	(103,301)	(228,564)	(44,889)	(376,755)	
Proceeds from sale of asset	121		25,000	25,121	
Increase in construction in progress			(19,764)	(19,764)	
Bond principal payment	(29,950)	(123,821)		(153,771)	
Interest and fees paid on bonds	(56,723)	(220,936)		(277,659)	
Property tax levy received	120,900	191,656		312,556	
Contributions from customers	26,600	92,983	38,213	157,796	
Grant income			5,406	5,406	
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(42,353)</u>	<u>(288,680)</u>	<u>3,966</u>	<u>(327,065)</u>	<u>-</u>

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>				<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER SUPPLY</u>	<u>RECREATION</u>	<u>TOTALS</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	18,678	30,256	126	49,061	24,007
NET CASH PROVIDED BY INVESTING ACTIVITIES	18,678	30,256	126	49,061	24,007
NET INCREASE IN CASH AND RESTRICTED CASH	90,497	245,567	35,277	371,340	96,456
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	782,663	811,458	47,704	1,641,825	589,385
CASH AND RESTRICTED CASH - END OF THE YEAR	<u>\$ 873,160</u>	<u>\$ 1,057,025</u>	<u>\$ 82,981</u>	<u>\$ 2,013,165</u>	<u>\$ 685,841</u>
Cash Reconciliation:					
Cash	\$ 430,083	\$ 329,655	\$ 82,981	\$ 842,718	\$ 685,841
Restricted cash	443,077	727,370		1,170,447	
Total	<u>\$ 873,160</u>	<u>\$ 1,057,025</u>	<u>\$ 82,981</u>	<u>\$ 2,013,165</u>	<u>\$ 685,841</u>

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>	
	<u>SEWER</u>	<u>WATER SUPPLY</u>	<u>RECREATION</u>	<u>TOTALS</u>	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (318,461)	\$ 104,743	\$ (227,355)	\$ (441,073)	\$ 36,455
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	293,267	160,013	160,615	613,895	47,412
Amortization	4,273	1,195		5,469	
(Increase) decrease in current assets:					
Accounts receivable	24,504	(11,427)	(10,000)	3,077	(12,227)
Due from other funds			37,831	37,831	
Due from other governments			2,654	2,654	
Inventory					
Increase (decrease) in current liabilities:					
Accounts payable	18,330	41,635	(3,787)	56,178	125
Accrued payroll and related taxes	1,660	(1,439)	(715)	(494)	(316)
Accrued vacation and sick leave	8	803	1,149	1,960	
Due to other funds	32,491	34,104	48,793	115,388	1,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 56,073</u>	<u>\$ 329,629</u>	<u>\$ 9,185</u>	<u>\$ 394,885</u>	<u>\$ 72,449</u>

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF NET ASSETS - FIDUCIARY FUND
JUNE 30, 2006**

	<u>FIDUCIARY FUND TYPE EXPENDABLE TRUST</u>
<u>ASSETS</u>	
Cash	\$ 108,676
Accrued interest receivable	1,138
TOTAL ASSETS	<u>\$ 109,814</u>
<u>NET ASSETS</u>	
Reserved for sick leave	\$ 109,814
TOTAL NET ASSETS	<u>\$ 109,814</u>

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF ACTIVITIES
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	EXPENDABLE TRUST
REVENUE:	
Employer contribution	\$ 4,075
Interest income	<u>2,845</u>
TOTAL REVENUE	6,920
 EXPENDITURES:	
Sick leave payments	<u>9,751</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	(2,831)
 OTHER FINANCING SOURCES:	
Operating transfers in	5,000
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	<u>2,169</u>
 NET ASSETS - JULY 1	107,645
 NET ASSETS - JUNE 30	<u><u>\$ 109,814</u></u>

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Harbor Beach operates a Council-Mayor form of government under provisions of a revised charter dated May 18, 1965, and provides the following services as authorized by its charter: public safety, (police, fire and inspection), highways and streets, sanitation, water, parks and recreation, public improvements, planning and zoning, and general administration.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- The financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The city elected to implement the general provisions of the Statement in the year ended June 30, 2004.

REPORTING ENTITY:

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB 14 pronouncement. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

REPORTING ENTITY: (CONTINUED)

Excluded from the reporting entity:

Harbor Beach Historical Society - This potential component unit is excluded from the reporting entity because the City does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

Harbor Beach Community Fire Protection Association - The Association is a separate entity formed by the City of Harbor Beach, Michigan and the Township of Sand Beach, both are located in Huron County, Michigan. The Association began operating February 1, 1985, under the terms of an interlocal agreement. The purpose of the Association is to provide fire protection to area property owners and residents. The governing body consists of two representatives appointed by each constituent unit. The Association is financed through assessments to the constituent units. The agreement states that the Association will operate on a calendar year and that its books will be audited annually by a certified public accounting firm chosen by the board. The Fire Department is excluded from the reporting entity because the City does not have the ability to exercise influence or control over its daily operations or approve budgets. The assessment to the City of Harbor Beach for the year ended June 30, 2006, amounted to \$50,562.

Harbor Beach Community School District - This potential component unit has a separate elected board and provides services to local residents of the Harbor Beach, Michigan area. The City does not have the ability to exercise influence or control over its daily operations, approve budgets or provide funding.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and general administrative services are classified as governmental activities. The City's water, sewer, and parks and recreation are classified as business-type activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT** **PRESENTATION:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The **Sewer Fund** accounts for the activities of the City's wastewater treatment operations.

The **Water Fund** accounts for the activities of the City's water distribution system.

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION: (CONTINUED)

The **Recreation Fund** provides campground facilities for overnight and seasonal campers and recreational vehicles, sales of marine fuels, seasonal and overnight boat docking and boat launching.

Additionally, the City reports the following nonmajor fund types:

Special Revenue Funds - Special Revenue Funds account for resources legally restricted to expenditures for specified current operating purposes and for the enforcement of special services and activities. Accounting and financial reporting for General and Special Revenue Funds are identical. The City accounts for the Major Street and Local Street in special revenue funds.

Capital Project Fund - The Capital Project Fund of the City accounts for the cost of constructing a variety of public works projects and related debt service. Financing is provided by a general obligation bond.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments on a cost-reimbursement basis. The Equipment Fund rents equipment to other City funds and departments at an hourly rate determined by the State of Michigan.

Fiduciary Fund Types:

Trust Funds - Trust funds are used to account for assets held by the City in a trustee capacity. The City is in a trustee capacity in relation to the Sick Leave Fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Utility enterprise funds and the City's Internal Service fund are charges to customers of the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) **BUDGETS AND BUDGETARY ACCOUNTING:**

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

A. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds as well as for all Enterprise and Internal Service funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

B. The City Council approves, by ordinance, the total budget appropriations only. The City Finance Officer is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (Legislative, Election, Financial and Administration, General, etc.).

C. Unused appropriations for all of the above annually budgeted funds lapse at the end of the year.

D. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Enterprise Funds, and the Capital Project Funds. In the General Fund, budgets are adopted at the functional level and budgetary control is exercised at the department level. For Special Revenue Funds, budgets are adopted and control is exercised at the level of total expenditures for each individual fund. For Capital Project Funds, budgets are adopted and control is exercised at the project level.

Annual budgets for the General Fund and all Special Revenue Funds were legally adopted by the City and are prepared on the modified-accrual method of accounting.

RECEIVABLES AND PAYABLES:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Other receivables at June 30, 2006 consist of property taxes, state road taxes, and billings for user charged services, including trash collections and utility services. Taxes, trash and utility charges are deemed collectible in full.

PROPERTY TAXES:

Property taxes attach as an enforceable lien on property as of December 31. City taxes are levied on the following December 1 and are payable without penalty through February 14. The City bills and collects its own property taxes and also taxes for the county and school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the current Tax Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available. Delinquent taxes are expected to be fully collectible and therefore no allowance for uncollectible taxes is provided.

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

INVENTORY:

Inventory in the Harbor Authority, a Proprietary Fund, is valued at the lower of cost or market on the first-in first-out method.

CAPITAL ASSETS:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	15 to 50
Buildings	25 to 50
Office equipment	5 to 15
Machinery and equipment	5 to 20
Vehicles	5 to 8
Improvements other than buildings	20

Depreciation of capital assets used by governmental funds is charged as an expense against their operations on the Statement of Activities. Accumulated depreciation is reported on the governmental fund Statement of Net Assets. Depreciation expense for the year ended June 30, 2006, was \$328,541. Capital asset acquisitions in the governmental funds totaled \$113,355 for the year ended June 30, 2006. A summary of Governmental Fund capital assets at June 30, 2006, follows:

	<u>2006</u>	<u>2005</u>
Land	\$2,661,392	\$2,661,392
Land improvements	172,621	150,257
Buildings	588,627	588,627
Office furnishings	11,870	11,870
Equipment	161,898	136,512
Internal Service Fund assets	1,044,298	1,044,298
Storm sewer	890,278	830,645
Roads	4,998,110	4,998,110
Other infrastructure	<u>1,736,802</u>	<u>1,730,830</u>
Total capital assets	12,265,896	12,152,541
Less accumulated depreciation	(4,995,530)	(4,619,577)
NET GOVERNMENTAL FUND CAPITAL ASSETS	<u>\$7,270,366</u>	<u>\$7,532,964</u>

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

CAPITAL ASSETS: (CONTINUED)

Depreciation of capital assets used by business-type funds is charged as an expense against their operations. Accumulated depreciation is reported on business-type fund balance sheets. Depreciation expense for the year ended June 30, 2006, was \$613,895. Capital asset acquisitions in the business-type funds totaled \$647,106 and asset disposals totaled \$26,635 for the year ended June 30, 2006. A summary of Business-Type Fund capital assets at June 30, 2006, follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 66,530	\$ 66,530
Buildings	4,258,057	4,258,057
Water system	4,847,347	4,847,347,000
Sewer system	2,254,364	1,913,401
Harbor docks	799,646	799,646
Harbor and parking lot	1,852,994	1,852,994
Equipment	7,099,589	7,046,890
North Park sites and improvements	<u>1,025,975</u>	<u>1,024,514</u>
Total capital assets	22,204,502	21,584,032
Less accumulated depreciation	(11,208,583)	(10,600,842)
Construction in progress	<u>41,264</u>	<u>291,852</u>
NET BUSINESS-TYPE FUND CAPITAL ASSETS	<u>\$11,037,183</u>	<u>\$11,275,042</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 16,286
Public safety	17,017
Highways and public improvement	293,504
Sanitation	1,734
Total depreciation expense – governmental	
Activities	<u>\$328,541</u>
Business-type activities:	
Sewer	\$293,267
Water	160,013
Parks and recreation	160,615
Total depreciation expense – business-type	
activities	<u>\$613,895</u>

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

USE OF ESTIMATES:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - BUDGET COMPLIANCE:

During the year ended June 30, 2006, the City incurred expenditures in the following fund which were in excess of the amounts appropriated:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General Fund:			
Capital outlay	\$ 100,500	\$160,085	\$(59,585)
Debt service	40,600	60,151	(19,551)

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS:

A. As of June 30, 2006, the City has a carrying amount of \$4,151,776 of deposits (cash and deposits) in local banks and the bank balance was \$4,202,899. Of the bank balance \$500,000 was covered by the Federal Deposit Insurance Corporation and \$3,702,899 remained uninsured and uncollateralized.

Michigan Compiled Laws Section 129.91, authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The City's deposits are in accordance with statutory authority.

B. Property taxes are levied based on the taxable value of property located in the City. Assessed value is established annually and equalized by the State at an estimated 50% of current market value. A comparison of the assessed and taxable property values for the 2005 tax levy is as follows:

	<u>ASSESSED VALUE</u>	<u>TAXABLE VALUE</u>
Real property-Regular roll	\$50,373,400	\$41,908,779
Personal property-Regular roll	9,241,000	9,241,000
TOTAL	\$ 59,614,400	\$51,149,779

The City is permitted, by charter, to levy up to \$20 (20 mills) per \$1,000 of taxable value for general governmental services including debt service. For the year ended June 30, 2006, the City levied 14.91 mills for general governmental services and 4.60 mills for debt service. Total millage levied was 19.51.

**CITY OF HARBOR BEACH, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS: (CONTINUED)

C. The balances of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$198,512	Recreation	\$130,512
General-Notes Receivable	108,678	Recreation-Notes Payable	108,678
		Major Street	2,000
		Local Street	1,000
		Sewer Fund	32,000
		Water Fund	32,000
		Equipment Rental Fund	1,000
Totals	<u>\$307,190</u>		<u>\$307,190</u>

D. Construction in Progress – The construction in progress in the amount of \$19,764 represents engineering and related fees related to an upcoming dredging project to take place in the City's marina. The total estimated cost of the dredging project is approximately \$500,000 and is expected to be completed by June 2007. It is anticipated that 90% of the project costs will be financed by the grant from the Army Corp of Engineers. Also included in construction in progress for the Sewer Fund is the amount of \$21,500 which represent engineering fees related to the sanitary sewer overflow improvement project. The cost of this project is estimated to total approximately \$4 million and be completed by December 2008.

E. Pension Plan

1. Plan Description - The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

2. Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200.

3. Annual Pension Cost – For the year ended June 30, 2006, the City's annual pension cost of \$25,940 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year, and (c) 2% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS: (CONTINUED)

Three year trend information:	Fiscal year ended December 31,		
	2003	2004	2005
Annual pension cost	\$ 37,048	\$ 37,976	\$ 32,121
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-0-	-0-	-0-
Actuarial value of assets	3,753,989	4,042,777	4,336,715
Actuarial Accrued Liability (entry age)	3,469,849	3,986,975	4,345,077
Unfunded (overfunded) AAL	(284,140)	(55,802)	8,362
Funded ratio	108%	101%	100%
Covered payroll	850,616	889,480	912,796
UAAL as a percentage of covered payroll	0%	0%	1%

F. Accumulated Sick Pay - The City allows one day per month sick leave; not to exceed 12 days per year, with unlimited maximum accumulation. All unused sick leave will be paid at one-half the current hourly rate of pay, up to a maximum payment of \$15,000, upon retirement with the City, provided that and conditional to the employee having ten years or more employment with the City. Upon death of the employee, all unused sick leave time will be paid to the employee's beneficiary in accordance with the above mentioned formula. The City has entered into an agreement with union employees whereby the City must deposit into a special group savings account in the City's name, the total accrued unused sick leave on December 31 of each year at one half the employees' current hourly rate. Upon eligible retirement, an employee may withdraw his credited balance including interest. Should an employee exhaust his yearly allotted sick leave, he then may draw one half days wages from his banked sick leave. The City will match the one half day's wages at the employees current rate. The employee may continue to draw until his bank is exhausted or the \$15,000 maximum is reached, whichever comes first. The liability for accumulated unpaid sick leave recorded in the governmental and business-type funds at June 30, 2006, is \$85,332.

G. Accrued Vacation Pay - The City's policy is to permit employees to accumulate limited amounts of earned, but unused, vacation benefits, which are vested in the employees. A long-term liability of \$57,695 of accrued vacation benefits at June 30, 2006, has been recorded in the governmental and business-type funds, representing the City's commitment to fund such costs from future operations.

H. Unemployment Benefits - The City has elected to be treated as a reimbursing employer for unemployment purposes. Any unemployment benefits paid to City employees by the Michigan unemployment fund must be reimbursed by the City on a dollar for dollar basis. The contingent liability for unemployment benefits is not recognized in the accompanying financial statements. The expense is recognized at the time the City becomes liable to the State of Michigan for unemployment benefits paid.

I. Risk Management - Property, liability and worker's compensation insurance and health and disability benefits are contracted by the City with commercial insurance providers. For the year ended June 30, 2006, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 4 - LONG-TERM DEBT:

The City of Harbor Beach has issued 1993 Water Supply and Distribution System Revenue Bonds to aid in the construction of a new water plant. The bond issue totaled \$4.345 million dollars. Twenty-two and twenty seven-hundredths percent (22.27%) of the issue is guaranteed through payments, by contract with an industrial water user. A surety bond has been issued by an insurance company securing the industrial water user's share of this project. The issue matures on November 1, 2032. The City has also issued 2000 General Obligation Public Improvement Bonds to aid in the replacement of the City's water and sewer lines. The bond issue totaled \$2.75 million dollars. The bond issue will mature on May 1, 2020. The City has also issued 2004 Capital Improvement Bonds. The bond issue totaled \$950,000 and will mature on May 1, 2024. Bonds and other long-term debt currently outstanding are as follows:

	<u>JUNE 30,</u> <u>2005</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>JUNE 30,</u> <u>2006</u>	<u>DUE WITHIN</u> <u>ONE YEAR</u>
Governmental activities:					
County drain assessment	\$ 439,763		\$ 29,318	\$ 410,445	\$ 29,317
Installment purchase Agreement	500,000		25,000	475,000	25,000
Accrued vacation and sick leave	95,280		6,695	88,585	
Total governmental activities	<u>\$1,035,043</u>		<u>\$ 61,013</u>	<u>\$ 974,030</u>	<u>\$ 54,317</u>
Business-type activities:					
Bonds payable:					
Capital improvement	\$ 915,000		\$ 35,000	\$ 880,000	\$ 35,000
Water supply and distribution	3,248,000		63,000	3,185,000	66,000
Public improvement	2,500,000		65,000	2,435,000	75,000
Accrued vacation and sick leave	52,482	\$1,960		54,442	
Total bonds payable – business-type activities	<u>\$6,715,482</u>	<u>\$1,960</u>	<u>\$163,000</u>	<u>\$6,554,442</u>	<u>\$176,000</u>

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 4 - LONG-TERM DEBT: (CONTINUED)

The long-term debt, excluding accrued vacation and sick leave, principal and interest, maturing in the next five years is as follows:

<u>JUNE 30,</u>	<u>CAPITAL IMPROVEMENT</u>	<u>WATER SUPPLY AND DISTRIBUTION</u>	<u>PUBLIC IMPROVEMENT</u>	<u>TOTAL LONG- TERM DEBT</u>
2007	\$ 75,652	\$ 231,480	\$ 206,414	\$ 513,546
2008	74,392	231,910	212,568	518,870
2009	78,080	232,130	218,212	528,422
2010	76,520	231,167	228,344	536,031
2011	74,920	231,019	237,706	543,645
2012-2016	372,406	1,155,509	1,314,568	2,842,483
2017-2021	361,365	1,152,100	1,237,008	2,750,473
2022-2026	215,600	1,146,246		1,361,846
2027-2031		1,051,307		1,051,307
Totals	<u>1,328,935</u>	<u>5,662,868</u>	<u>3,654,820</u>	<u>10,646,623</u>
Less interest	<u>448,935</u>	<u>2,477,868</u>	<u>1,219,820</u>	<u>4,146,623</u>
Outstanding principal	<u>\$ 880,000</u>	<u>\$3,185,000</u>	<u>\$2,435,000</u>	<u>\$6,500,000</u>

In 1996, the City approved a resolution that authorized a County Drain Assessment in the amount of \$586,350. The annual principal payments total \$29,317 plus interest at 6%. The assessment matures in 2019. The City has also issued a 2003 Installment Purchase Agreement for the purchase of land. The agreement totaled \$525,000 and will mature on April 1, 2019. The drain assessment and the purchase agreement are recorded in the Governmental Activities. The long-term debt, principal and interest, maturing in the next five years is as follows:

<u>JUNE 30,</u>	<u>INSTALLMENT PURCHASE AGREEMENT</u>	<u>COUNTY DRAIN ASSESSMENT</u>
2007	\$ 39,754	\$55,586
2008	43,877	53,710
2009	42,920	51,833
2010	41,963	49,957
2011	41,006	48,081
2012-2016	227,961	212,259
2017-2019	<u>146,856</u>	<u>136,033</u>
Totals	<u>584,337</u>	<u>607,459</u>
Less interest	<u>109,337</u>	<u>197,014</u>
Outstanding principal	<u>\$475,000</u>	<u>\$410,445</u>

Total interest costs incurred and charged to expense for the governmental activities and the business-type activities for the year ended June 30, 2006 amounted to \$53,715 and \$290,479, respectively.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF HARBOR BEACH, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes:				
Current property taxes	\$ 1,025,000	\$ 1,013,000	\$ 1,013,601	\$ 601
Trailer park taxes	500	300	317	17
Total taxes	<u>1,025,500</u>	<u>1,013,300</u>	<u>1,013,918</u>	<u>618</u>
Licenses and permits:				
Building permits	<u>4,000</u>	<u>2,100</u>	<u>2,175</u>	<u>75</u>
Intergovernmental:				
Coastal management grant	10,000			
State revenue sharing:				
Sales tax - Constitutional	115,000	106,500	106,911	411
Sales tax - Statutory	80,000	81,000	81,399	399
Liquor license	500	-	2,211	2,211
Total intergovernmental	<u>205,500</u>	<u>187,500</u>	<u>190,521</u>	<u>3,021</u>
Charges for services:				
Trash pickup collections	90,000	83,500	83,645	145
Charges for fees and services	<u>90,000</u>	<u>85,500</u>	<u>85,942</u>	<u>442</u>
Total charges for services	<u>180,000</u>	<u>169,000</u>	<u>169,587</u>	<u>587</u>
Fines and forfeitures	<u>10,000</u>	<u>9,000</u>	<u>9,487</u>	<u>487</u>
Miscellaneous:				
Interest income	25,000	45,000	41,208	(3,792)
Sale of assets	20,000			
Contributions	1,000	6,100	6,903	803
Rents and leases	<u>16,000</u>	<u>9,000</u>	<u>9,450</u>	<u>450</u>
Total miscellaneous	<u>62,000</u>	<u>60,100</u>	<u>57,561</u>	<u>(2,539)</u>
TOTAL REVENUE	<u>1,487,000</u>	<u>1,441,000</u>	<u>1,443,249</u>	<u>2,249</u>
EXPENDITURES:				
Legislative:				
Council and mayor salaries	7,000	7,000	6,915	85
Fringe benefits	500	600	573	27
Conferences and workshops	3,000	3,000	2,802	198
Supplies	500	200	116	84
Community promotion	<u>1,000</u>	<u>200</u>	<u>25</u>	<u>175</u>
Total legislative	<u>12,000</u>	<u>11,000</u>	<u>10,431</u>	<u>569</u>

CITY OF HARBOR BEACH, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Elections:				
Salaries	1,000	500	232	268
Fringe benefits	200	500	24	476
Office supplies	200	-	(58)	58
Postage	100	-	-	-
Printing and publishing	200	-	-	-
Contracted services	300	-	-	-
Total elections	<u>2,000</u>	<u>1,000</u>	<u>198</u>	<u>802</u>
Financial and administration:				
Salaries	170,000	179,000	178,274	726
Fringe benefits	60,000	58,000	57,956	44
Postage	1,000	1,000	642	358
Professional services	6,000	4,900	4,152	748
Contracted services	2,000	1,400	1,333	67
Office supplies	1,000	1,500	1,371	129
Telephone	4,000	2,800	2,787	13
Transportation	1,000	1,400	1,393	7
Conferences and workshops	3,000	3,700	3,660	40
Community promotion	2,000	600	554	46
Insurance	1,000	700	693	7
Assessor	26,000	20,000	19,681	319
Board of review	2,000	1,000	704	296
Total financial and administration	<u>279,000</u>	<u>276,000</u>	<u>273,200</u>	<u>2,800</u>
General:				
Salaries	118,000	127,000	126,143	857
Fringe benefits	78,000	99,000	98,570	430
Supplies	12,000	16,000	14,840	1,160
Postage	1,000	700	691	9
Clothing	2,000	1,100	1,049	51
Professional services	15,000	28,000	27,812	188
Contracted services	70,000	64,000	63,835	165
Engineering fees	4,000	300	260	40
Transportation		300	212	88
Community promotion	5,000	2,100	2,052	48
Printing & publishing	3,000	3,300	3,262	38
Insurance	42,000	31,500	31,385	115
Utilities	20,000	19,400	19,347	53
Repairs and maintenance	10,000	10,200	10,155	45
Equipment rental	45,000	48,300	48,271	29
Dues and subscriptions	1,000	800	760	40
Sidewalk maintenance	8,000	7,900	7,898	2
Hydrant rental	60,000	60,000	60,000	
Education	1,000	1,000	634	366
Total general	<u>495,000</u>	<u>520,900</u>	<u>517,176</u>	<u>3,724</u>

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Police department:				
Salaries	215,000	221,500	220,474	1,026
Fringe benefits	65,000	71,600	71,575	25
Postage	200	300	224	76
Supplies	2,500	1,600	1,583	17
Dues and subscriptions	400	800	785	15
Uniforms	1,000	700	655	45
Cleaning allowance	300	500	466	34
Professional services	8,000	10,000	9,870	130
Telephone	3,600	3,600	3,516	84
Police car maintenance	13,000	13,600	13,542	58
Insurance	14,000	12,000	11,838	162
Education and training	2,000	800	723	77
Total police department	<u>325,000</u>	<u>337,000</u>	<u>335,251</u>	<u>1,749</u>
Planning:				
Salaries	12,000	8,800	8,618	182
Fringe benefits	1,000	700	625	75
Professional services	22,000	100	99	1
Postage		100	21	79
Telephone	800			
Supplies and tools	200	400	356	44
Conferences	500	700	645	55
Printing and publishing	500	200	122	78
Total planning	<u>37,000</u>	<u>11,000</u>	<u>10,486</u>	<u>514</u>
Street lighting	<u>60,000</u>	<u>59,000</u>	<u>58,959</u>	<u>41</u>
Sanitation:				
Contracted services	<u>90,000</u>	<u>88,000</u>	<u>87,478</u>	<u>522</u>
Capital Outlay:				
Land improvements	70,000	76,400	76,380	20
Financial and administration	25,000	-	-	-
General	10,000	24,100	83,705	(59,605)
Police	5,000	-	-	-
Total Capital Outlay	<u>110,000</u>	<u>100,500</u>	<u>160,085</u>	<u>(59,585)</u>
Debt Service:				
Principal	40,000	25,000	33,897	(8,897)
Interest expense	10,000	15,600	26,254	(10,654)
Total Debt Service	<u>50,000</u>	<u>40,600</u>	<u>60,151</u>	<u>(19,551)</u>

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
TOTAL EXPENDITURES	1,460,000	1,445,000	1,513,415	(68,415)
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>27,000</u>	<u>(4,000)</u>	<u>(70,166)</u>	<u>(66,166)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in			79,232	79,232
Operating transfers out	(27,000)	(27,000)	(27,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(27,000)</u>	<u>(27,000)</u>	<u>52,232</u>	<u>79,232</u>
EXCESS OF REVENUE AND OTHER SOURCES (UNDER) EXPENDITURES AND OTHER USES	<u>-</u>	<u>(31,000)</u>	<u>(17,934)</u>	<u>13,066</u>
FUND BALANCE - JULY 1	914,729	914,729	914,729	
FUND BALANCE - JUNE 30	<u>\$ 914,729</u>	<u>\$ 883,729</u>	<u>\$ 896,795</u>	<u>\$ 13,066</u>

SUPPLEMENTAL INFORMATION

CITY OF HARBOR BEACH, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	<u>SPECIAL REVENUE</u>		<u>TOTALS</u>	
	<u>MAJOR STREET & TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>JUNE 30, 2006</u>	<u>2005</u>
<u>ASSETS</u>				
Cash	\$ 288,227	\$ 361,311	\$ 752,183	\$ 923,640
Due from other governments	28,741	5,458	34,199	40,406
TOTAL ASSETS	<u>\$ 316,968</u>	<u>\$ 366,769</u>	<u>\$ 786,382</u>	<u>\$ 964,046</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 1,122	\$ 78	\$ 1,975	\$ 1,117
Accrued payroll and related taxes	3,809	853	7,221	
Due to other funds		3,412		
Total liabilities	<u>4,931</u>	<u>4,343</u>	<u>9,274</u>	<u>1,117</u>
Fund balance - unreserved	312,037	362,426	777,108	962,929
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 316,968</u>	<u>\$ 366,769</u>	<u>\$ 786,382</u>	<u>\$ 964,046</u>

CITY OF HARBOR BEACH, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>SPECIAL REVENUE</u>		<u>CAPITAL</u>	<u>TOTALS</u>	
	<u>MAJOR STREET & TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>PROJECTS</u>	<u>2006</u>	<u>JUNE 30, 2005</u>
REVENUE:					
Intergovernmental	\$ 122,975	\$ 105,529		\$ 228,504	\$ 237,914
Miscellaneous	9,655	16,269	\$ 2,703	28,627	29,930
TOTAL REVENUE	<u>132,630</u>	<u>121,798</u>	<u>2,703</u>	<u>257,131</u>	<u>267,844</u>
EXPENDITURES:					
Streets	69,855	54,654		124,509	162,353
Administrative	4,000	2,750		6,750	6,650
TOTAL EXPENDITURES	<u>73,855</u>	<u>57,404</u>		<u>131,259</u>	<u>169,003</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>58,775</u>	<u>64,394</u>	<u>2,703</u>	<u>125,872</u>	<u>98,841</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in					427,807
Operating transfers (out)			(311,693)	(311,693)	(21,113)
TOTAL OTHER FINANCING SOURCES (USES)			<u>(311,693)</u>	<u>(311,693)</u>	<u>406,694</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>58,775</u>	<u>64,394</u>	<u>(308,990)</u>	<u>(185,821)</u>	<u>505,535</u>
FUND BALANCE - JULY 1	253,262	298,032	411,635	962,929	457,394
FUND BALANCE - JUNE 30	<u>\$ 312,037</u>	<u>\$ 362,426</u>	<u>\$ 102,645</u>	<u>\$ 777,108</u>	<u>\$ 962,929</u>

CITY OF HARBOR BEACH, MICHIGAN
MAJOR STREET AND TRUNKLINE FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 75,000	\$ 91,000	\$ 99,455	\$ 8,455
State trunkline maintenance	36,000	10,500	23,520	13,020
Total intergovernmental	<u>111,000</u>	<u>101,500</u>	<u>122,975</u>	<u>21,475</u>
Miscellaneous:				
Charges		100	118	18
Interest	3,000	9,400	9,537	137
TOTAL REVENUE	<u>114,000</u>	<u>111,000</u>	<u>132,630</u>	<u>21,630</u>
EXPENDITURES:				
Routine maintenance:				
Labor	5,000	5,000	4,999	1
Fringe benefits	2,500	2,300	2,292	8
Materials	3,000	2,000	1,484	516
Repairs and maintenance	12,500	8,700	8,318	382
Equipment rental	5,000	5,000	4,950	50
Total routine maintenance	<u>28,000</u>	<u>23,000</u>	<u>22,043</u>	<u>957</u>
Traffic services:				
Labor	1,000	700	331	369
Fringe benefits	100	200	192	8
Materials	400			
Equipment rental	500	100	93	7
Total traffic services	<u>2,000</u>	<u>1,000</u>	<u>616</u>	<u>384</u>
Winter maintenance:				
Labor	10,000	8,000	7,458	542
Fringe benefits	4,000	3,500	3,117	383
Materials	3,000	1,000	1,000	
Equipment rental	9,000	8,500	8,423	77
Total winter maintenance	<u>26,000</u>	<u>21,000</u>	<u>19,998</u>	<u>1,002</u>
Administrative:				
Administrative cost	2,000	2,000	2,000	
Professional services	2,000	2,000	2,000	
Total administrative	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>

CITY OF HARBOR BEACH, MICHIGAN
MAJOR STREET AND TRUNKLINE FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Trunkline Maintenance:				
Labor	9,000	8,800	8,134	666
Fringe benefits	4,000	4,100	4,040	60
Materials	1,000	3,000	2,964	36
Equipment rental	<u>10,000</u>	<u>12,100</u>	<u>12,060</u>	<u>40</u>
Total trunkline maintenance	<u>24,000</u>	<u>28,000</u>	<u>27,198</u>	<u>802</u>
TOTAL EXPENDITURES	<u>84,000</u>	<u>77,000</u>	<u>73,855</u>	<u>3,145</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>30,000</u>	<u>34,000</u>	<u>58,775</u>	<u>24,775</u>
OTHER FINANCING (USES):				
Operating transfers (out)	(30,000)			
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	<u>-</u>	<u>34,000</u>	<u>58,775</u>	<u>24,775</u>
FUND BALANCE - JULY 1	<u>253,262</u>	<u>253,262</u>	<u>253,262</u>	
FUND BALANCE - JUNE 30	<u>\$ 253,262</u>	<u>\$ 287,262</u>	<u>\$ 312,037</u>	<u>\$ 24,775</u>

CITY OF HARBOR BEACH, MICHIGAN

**LOCAL STREET FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 28,000	\$ 34,000	\$ 37,673	\$ 3,673
County road millage	70,000	67,800	67,856	56
Total intergovernmental	<u>98,000</u>	<u>101,800</u>	<u>105,529</u>	<u>3,729</u>
Miscellaneous:				
Interest	3,500	10,700	10,749	49
Charges	500	5,500	5,520	20
Total miscellaneous	<u>4,000</u>	<u>16,200</u>	<u>16,269</u>	<u>69</u>
TOTAL REVENUE	<u>102,000</u>	<u>118,000</u>	<u>121,798</u>	<u>3,798</u>
EXPENDITURES:				
Construction:				
Labor	1,000			
Fringe benefits	500			
Contracted services	38,000			
Engineering fees	9,000			
Equipment rental	500			
Total construction	<u>49,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Routine maintenance:				
Labor	5,000	8,300	8,273	27
Fringe benefits	2,000	4,200	4,119	81
Materials	2,000	2,100	2,001	99
Repairs & maintenance	12,000	8,900	8,315	585
Equipment rental	6,000	7,500	7,424	76
Total routine maintenance	<u>27,000</u>	<u>31,000</u>	<u>30,132</u>	<u>868</u>
Traffic services:				
Labor	1,000	550	515	35
Fringe benefits	500	250	236	14
Equipment rental	500	200	182	18
Total traffic services	<u>2,000</u>	<u>1,000</u>	<u>933</u>	<u>67</u>
Winter maintenance:				
Labor	8,000	8,500	8,184	316
Fringe benefits	3,000	3,400	3,386	14
Materials	1,000	1,000	1,000	
Equipment rental	9,000	11,100	11,019	81
Total winter maintenance	<u>21,000</u>	<u>24,000</u>	<u>23,589</u>	<u>411</u>
Administrative:				
Administration cost	1,000	1,000	1,000	
Professional services	2,000	2,000	1,750	250
Total administrative	<u>3,000</u>	<u>3,000</u>	<u>2,750</u>	<u>250</u>

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**LOCAL STREET FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
TOTAL EXPENDITURES	102,000	59,000	57,404	1,596
EXCESS OF REVENUE OVER EXPENDITURES	<u>-</u>	<u>59,000</u>	<u>64,394</u>	<u>5,394</u>
FUND BALANCE - JULY 1	298,032	298,032	298,032	
FUND BALANCE - JUNE 30	<u>\$ 298,032</u>	<u>\$ 357,032</u>	<u>\$ 362,426</u>	<u>\$ 5,394</u>

CITY OF HARBOR BEACH, MICHIGAN

**SEWER FUND
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Sewer service charge	\$ 411,100	\$ 411,154	\$ 54
Sewer permits	3,000	3,160	160
TOTAL OPERATING REVENUE	<u>414,100</u>	<u>414,314</u>	<u>214</u>
OPERATING EXPENSES:			
Salaries	158,600	158,601	(1)
Administrative cost	32,000	32,000	
Fringe benefits	71,300	71,273	27
Dues and subscriptions	200	150	50
Supplies	8,200	8,204	(4)
Postage	900	841	59
Clothing	100	64	36
Chemicals	20,500	20,440	60
Education and training	1,000	908	92
Professional services	4,500	4,193	307
Contracted services	92,100	91,912	188
Penalties and fines	1,500	1,500	
Licenses and fees	3,700	3,656	44
Telephone	1,100	1,025	75
Transportation	1,500	1,496	4
Insurance	6,100	6,083	17
Utilities	17,500	17,457	43
Equipment maintenance	5,300	5,271	29
Repairs and maintenance	3,400	3,376	24
Equipment rental	4,900	4,875	25
Sewer main maintenance	1,300	1,260	40
Equipment replacement	38,700	540	38,160
Depreciation	281,000	293,267	(12,267)
Amortization	3,600	4,384	(784)
TOTAL OPERATING EXPENSES	<u>759,000</u>	<u>732,776</u>	<u>26,224</u>
OPERATING LOSS	<u>(344,900)</u>	<u>(318,461)</u>	<u>26,439</u>
NONOPERATING REVENUE (EXPENSES):			
Interest income	18,500	18,678	178
Sale of fixed assets	100	121	21
Property tax levy	48,300	120,900	72,600
Contributions		26,600	26,600
Bond interest expense		(56,491)	(56,491)
Paying agent fees		(141)	(141)
TOTAL NONOPERATING REVENUE	<u>66,900</u>	<u>109,667</u>	<u>42,767</u>
(LOSS) BEFORE OPERATING TRANSFERS	<u>(278,000)</u>	<u>(208,795)</u>	<u>69,205</u>
OTHER FINANCING SOURCES:			
Operating transfers in		58,100	58,100
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>58,100</u>	<u>58,100</u>
NET (LOSS)	<u>\$ (278,000)</u>	<u>\$ (150,695)</u>	<u>\$ 127,305</u>

CITY OF HARBOR BEACH, MICHIGAN

**WATER SUPPLY FUND
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Water sales	\$ 606,000	\$ 606,047	\$ 47
Sale of material and labor	16,200	16,556	356
Water permits	1,900	1,950	50
Fire hydrant rental	<u>60,000</u>	<u>60,000</u>	
TOTAL OPERATING REVENUE	<u>684,100</u>	<u>684,553</u>	<u>453</u>
OPERATING EXPENSES:			
Salaries	164,500	165,190	(690)
Administrative cost	32,000	32,000	
Fringe benefits	84,500	84,434	66
Supplies	6,400	6,408	(8)
Postage	700	633	67
Chemicals	21,700	21,692	8
Professional services	9,500	9,428	72
Contracted services	58,400	6,123	52,277
Telephone	650	607	43
Transportation	400	398	2
Insurance	5,700	5,660	40
Utilities	63,000	62,948	52
Equipment maintenance	2,050	2,038	12
Repairs and maintenance	6,300	2,984	3,316
Maintenance of mains	7,100	7,066	34
Maintenance of grounds	300	276	24
Equipment rental	9,800	9,774	26
Education and training	700	611	89
Depreciation	159,500	160,013	(513)
Amortization		1,527	(1,527)
TOTAL OPERATING EXPENSES	<u>633,200</u>	<u>579,810</u>	<u>53,390</u>
OPERATING INCOME	<u>50,900</u>	<u>104,743</u>	<u>53,843</u>
NONOPERATING REVENUE (EXPENSES):			
Property taxes	63,000	191,656	128,656
Contributions from customers	92,900	92,983	83
Paying agent fees		(302)	(302)
Interest income	30,000	30,256	256
Interest expense	<u>(89,800)</u>	<u>(219,853)</u>	<u>(130,053)</u>
TOTAL NONOPERATING REVENUE	<u>96,100</u>	<u>94,740</u>	<u>(1,360)</u>
INCOME BEFORE OPERATING TRANSFERS	<u>147,000</u>	<u>199,484</u>	<u>52,484</u>
OTHER FINANCING USES:			
Operating transfers in	-	174,361	174,361
NET INCOME	<u>\$ 147,000</u>	<u>\$ 373,845</u>	<u>\$ 226,845</u>

CITY OF HARBOR BEACH, MICHIGAN

**RECREATION FUND
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Fees for marina services	\$ 70,300	\$ 71,280	\$ 980
Sale of marina material and labor	158,700	158,941	241
Rentals	215,000	216,212	1,212
Retail merchandise	4,500	4,628	128
Recreation fees	6,000	6,398	398
Trip and entrance fees	8,200	8,469	269
Membership fees	3,000	3,017	17
Storage fees	2,000	2,450	450
TOTAL OPERATING REVENUE	<u>467,700</u>	<u>471,395</u>	<u>3,695</u>
OPERATING EXPENSES:			
Salaries	148,400	146,181	2,219
Administrative cost	16,000	16,000	
Office expense	1,300	1,177	123
Fringe benefits	51,600	50,699	901
Supplies and tools	40,450	38,801	1,649
Merchandise	128,100	125,758	2,342
Professional services	10,900	2,250	8,650
Contracted services	2,100	1,923	177
Telephone	3,500	3,101	399
Transportation	1,800	1,686	114
Community promotion	2,500	2,338	162
Sanctioning fees	1,500	1,148	352
Printing & publishing	1,900	1,820	80
Postage	1,000	646	354
Insurance	7,900	7,490	410
Utilities	72,250	71,325	925
Repairs and maintenance	43,700	14,689	29,011
Equipment rental	20,900	20,539	361
Dues and subscriptions	900	875	25
License	1,900	303	1,597
Diesel tax	4,100	4,086	14
State sales tax	8,600	8,539	61
Depreciation	166,600	160,615	5,985
Event charges	200	139	61
Special event expenses	11,100	10,467	633
Umpire fees	800	750	50
Bank Charge - Credit cards	6,000	5,405	595
Capital outlay	19,800	-	19,800
TOTAL OPERATING EXPENSES	<u>775,800</u>	<u>698,750</u>	<u>77,050</u>
OPERATING LOSS	<u>(308,100)</u>	<u>(227,355)</u>	<u>80,745</u>
NONOPERATING REVENUE (EXPENSE):			
Interest income	500	593	93
Sale of fixed assets	15,000	4,519	(10,481)
Contributions	35,800	38,213	2,413
Grant income	-	5,406	5,406
Interest expense	(14,200)	(14,135)	65
TOTAL NONOPERATING REVENUE	<u>37,100</u>	<u>34,596</u>	<u>(2,504)</u>
LOSS BEFORE OPERATING TRANSFERS	<u>(271,000)</u>	<u>(192,759)</u>	<u>78,241</u>
OTHER FINANCING SOURCES:			
Operating transfers in	22,000	22,000	
NET LOSS	<u>\$ (249,000)</u>	<u>\$ (170,759)</u>	<u>\$ 78,241</u>

CITY OF HARBOR BEACH, MICHIGAN

**INTERNAL SERVICE FUND
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Rental of equipment	<u>\$ 125,000</u>	<u>\$ 138,189</u>	<u>\$ 13,189</u>
OPERATING EXPENSES:			
Salaries	10,900	10,624	276
Administrative cost	1,000	1,000	
Fringe benefits	5,200	5,141	59
Supplies and tools	2,800	2,778	22
Repair parts	8,100	8,024	76
Professional services	1,400	1,350	50
Telephone	900	896	4
Gas and oil	17,100	17,004	96
Insurance	4,900	4,881	19
Equipment maintenance	2,700	2,624	76
Depreciation		47,412	(47,412)
TOTAL OPERATING EXPENSES	<u>55,000</u>	<u>101,734</u>	<u>(46,734)</u>
OPERATING INCOME	<u>70,000</u>	<u>36,455</u>	<u>(33,545)</u>
NONOPERATING REVENUE:			
Interest income	<u>24,000</u>	<u>24,007</u>	<u>7</u>
TOTAL NONOPERATING REVENUE	<u>24,000</u>	<u>24,007</u>	<u>7</u>
NET INCOME	<u>\$ 94,000</u>	<u>\$ 60,462</u>	<u>\$ (33,538)</u>

CITY OF HARBOR BEACH, MICHIGAN

**ENTERPRISE FUNDS
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
FOR THE YEAR ENDED JUNE 30, 2006**

	CAPITAL ASSETS			ACCUMULATED DEPRECIATION			NET ASSET COST
	BALANCE JUNE 30, 2005	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2006	PROVISION FOR DEPRECIATION	RETIREMENTS	
SEWER FUND:							
Buildings	\$ 1,052,143			\$ 1,052,143	\$ 26,304		\$ 565,520
Equipment	4,301,178	\$ 32,690		4,333,868	183,667		1,149,534
Sewer lines	1,913,401	340,963		2,254,364	83,296		1,477,987
TOTAL SEWER FUND	7,266,722	373,653	-	7,640,375	293,267	-	3,193,041
WATER SUPPLY FUND:							
Buildings	2,540,310			2,540,310	50,807		1,972,974
Equipment	1,888,425	3,217		1,891,642	19,131		86,329
Water mains	4,517,718	225,347		4,743,065	87,990		3,950,960
Water tower	104,282			104,282	2,085		30,235
TOTAL WATER SUPPLY FUND	9,050,735	228,564	-	9,279,299	160,013	-	6,040,498
RECREATION FUND:							
Land	66,530			66,530			66,530
Buildings	665,604			665,604	24,834		320,455
Docks	799,646			799,646	5,604		13,249
Harbor & parking lot	1,852,994			1,852,994	62,383		735,955
Machinery & equipment	857,287	43,427		874,079	24,504	\$ (6,154)	195,817
Sites & improvements	1,024,514	1,462		1,025,976	43,290		430,375
TOTAL PARKS AND RECREATION FUND	5,266,575	44,889	(26,635)	5,284,829	160,615	(6,154)	1,762,381
TOTALS	\$ 21,584,032	\$ 647,106	\$ (26,635)	\$22,204,503	\$10,600,842	\$ (6,154)	\$10,995,920

CITY OF HARBOR BEACH, MICHIGAN

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS 1993 WATER SUPPLY AND DISTRIBUTION SYSTEM REVENUE BONDS AT JUNE 30, 2006

<u>MATURITY</u> <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
11/01/06	\$ 66,000	5.25%	\$ 83,606	\$ 149,606
05/01/07			81,874	81,874
11/01/07	70,000	5.25	81,874	151,874
05/01/08			80,036	80,036
11/01/08	74,000	5.25	80,036	154,036
05/01/09			78,094	78,094
11/01/09	77,000	5.25	78,094	155,094
05/01/10			76,073	76,073
11/01/10	81,000	5.25	76,073	157,073
05/01/11			73,946	73,946
11/01/11	86,000	5.25	73,946	159,946
05/01/12			71,689	71,689
11/01/12	90,000	5.25	71,689	161,689
05/01/13			69,326	69,326
11/01/13	95,000	5.25	69,326	164,326
05/01/14			66,833	66,833
11/01/14	100,000	5.25	66,833	166,833
05/01/15			64,208	64,208
11/01/15	105,000	5.25	64,208	169,208
05/01/16			61,451	61,451
11/01/16	111,000	5.25	61,451	172,451
05/01/17			58,538	58,538
11/01/17	116,000	5.25	58,538	174,538
05/01/18			55,492	55,492
11/01/18	123,000	5.25	55,492	178,492
05/01/19			52,264	52,264
11/01/19	129,000	5.25	52,264	181,264
05/01/20			48,877	48,877
11/01/20	136,000	5.25	48,877	184,877
05/01/21			45,307	45,307
11/01/21	143,000	5.25	45,307	188,307
05/01/22			41,554	41,554
11/01/22	150,000	5.25	41,554	191,554
05/01/23			37,616	37,616
11/01/23	158,000	5.25	37,616	195,616
05/01/24			33,469	33,469
11/01/24	167,000	5.25	33,469	200,469
05/01/25			29,085	29,085
11/01/25	175,000	5.25	29,085	204,085
05/01/26			24,491	24,491
11/01/26	185,000	5.25	24,491	209,491

CITY OF HARBOR BEACH, MICHIGAN

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
1993 WATER SUPPLY AND DISTRIBUTION SYSTEM REVENUE BONDS
AT JUNE 30, 2006**

MATURITY DATE	PRINCIPAL	INTEREST		TOTAL
		RATE	AMOUNT	
05/01/27			19,635	19,635
11/01/27	194,000	5.25	19,635	213,635
05/01/28			14,542	14,542
11/01/28	204,000	5.25	14,542	218,542
05/01/29			9,187	9,187
11/01/29	215,000	5.25	9,187	224,187
05/01/30			3,544	3,544
11/01/30	135,000	5.25	3,544	138,544
TOTALS	<u><u>\$ 3,185,000</u></u>		<u><u>\$ 2,477,868</u></u>	<u><u>\$ 5,662,868</u></u>

CITY OF HARBOR BEACH, MICHIGAN

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS 2000 GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS AT JUNE 30, 2006

MATURITY DATE	PRINCIPAL	INTEREST		TOTAL
		RATE	AMOUNT	
11/01/06			\$ 65,707	\$ 65,707
05/01/07	\$ 75,000	5.125%	65,707	140,707
11/01/07			63,784	63,784
05/01/08	85,000	5.125	63,784	148,784
11/01/08			61,606	61,606
05/01/09	95,000	5.125	61,606	156,606
11/01/09			59,172	59,172
05/01/10	110,000	5.125	59,172	169,172
11/01/10			56,353	56,353
05/01/11	125,000	5.125	56,353	181,353
11/01/11			53,150	53,150
05/01/12	140,000	5.125	53,150	193,150
11/01/12			49,563	49,563
05/01/13	155,000	5.35	49,563	204,563
11/01/13			45,416	45,416
05/01/14	170,000	5.35	45,416	215,416
11/01/14			40,869	40,869
05/01/15	190,000	5.35	40,869	230,869
11/01/15			35,786	35,786
05/01/16	210,000	5.45	35,786	245,786
11/01/16			30,064	30,064
05/01/17	235,000	5.45	30,064	265,064
11/01/17			23,660	23,660
05/01/18	260,000	5.60	23,660	283,660
11/01/18			16,380	16,380
05/01/19	285,000	5.60	16,380	301,380
11/01/19			8,400	8,400
05/01/20	300,000	5.60	8,400	308,400
TOTALS	\$ 2,435,000		\$ 1,219,820	\$ 3,654,820

CITY OF HARBOR BEACH, MICHIGAN

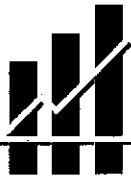
SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS 2004 GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS AT JUNE 30, 2006

MATURITY <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
11/01/06			\$ 20,326	\$ 20,326
05/01/07	\$ 35,000	3.600%	20,326	55,326
11/01/07			19,696	19,696
05/01/08	35,000	3.750	19,696	54,696
11/01/08			19,040	19,040
05/01/09	40,000	3.900	19,040	59,040
11/01/09			18,260	18,260
05/01/10	40,000	4.000	18,260	58,260
11/01/10			17,460	17,460
05/01/11	40,000	4.150	17,460	57,460
11/01/11			16,630	16,630
05/01/12	40,000	4.300	16,630	56,630
11/01/12			15,770	15,770
05/01/13	45,000	4.400	15,770	60,770
11/01/13			14,780	14,780
05/01/14	45,000	4.500	14,780	59,780
11/01/14			13,768	13,768
05/01/15	45,000	4.500	13,768	58,768
11/01/15			12,755	12,755
05/01/16	50,000	4.600	12,755	62,755
11/01/16			11,605	11,605
05/01/17	50,000	4.700	11,605	61,605
11/01/17			10,430	10,430
05/01/18	50,000	4.800	10,430	60,430
11/01/18			9,230	9,230
05/01/19	55,000	4.850	9,230	64,230
11/01/19			7,896	7,896
05/01/20	55,000	5.000	7,896	62,896
11/01/20			6,521	6,521
05/01/21	60,000	5.000	6,521	66,521
11/01/21			5,021	5,021
05/01/22	60,000	5.150	5,021	65,021
11/01/22			3,476	3,476
05/01/23	65,000	5.150	3,476	68,476
11/01/23			1,803	1,803
05/01/24	70,000	5.150	1,803	71,803
TOTALS	\$ 880,000		\$ 448,935	\$ 1,328,935

CITY OF HARBOR BEACH, MICHIGAN

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
2003 INSTALLMENT PURCHASE AGREEMENT
AT JUNE 30, 2006**

MATURITY DATE	PRINCIPAL	INTEREST		TOTAL
		RATE	AMOUNT	
10/01/06	\$ 25,000	3.190%	\$ 7,576	\$ 32,576
04/01/07			7,178	7,178
10/01/07	30,000	3.190	7,178	37,178
04/01/08			6,699	6,699
10/01/08	30,000	3.190	6,699	36,699
04/01/09			6,221	6,221
10/01/09	30,000	3.190	6,221	36,221
04/01/10			5,742	5,742
10/01/10	30,000	3.190	5,742	35,742
04/01/11			5,264	5,264
10/01/11	35,000	3.190	5,264	40,264
04/01/12			4,705	4,705
10/01/12	35,000	3.190	4,705	39,705
04/01/13			4,147	4,147
10/01/13	40,000	3.190	4,147	44,147
04/01/14			3,509	3,509
10/01/14	40,000	3.190	3,509	43,509
04/01/15			2,871	2,871
10/01/15	40,000	3.190	2,871	42,871
04/01/16			2,233	2,233
10/01/16	45,000	3.190	2,233	47,233
04/01/17			1,515	1,515
10/01/17	45,000	3.190	1,515	46,515
04/01/18			798	798
10/01/18	50,000	3.190	798	50,798
TOTALS	<u>\$ 475,000</u>		<u>\$ 109,337</u>	<u>\$ 584,337</u>



Nietzke & Faupel, PC

ALLAN W. NIETZKE, CPA
DONALD C. FAUPEL, CPA
JEFFREY P. BUSHEY, CPA
BRIAN V. HAZARD, CPA

Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Harbor Beach, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harbor Beach, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City of Harbor Beach, Michigan's basic financial statements and have issued our report thereon dated August 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Harbor Beach, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Harbor Beach, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

August 23, 2006

To the City Council
City of Harbor Beach
Harbor Beach, Michigan

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the City of Harbor Beach for the year ended June 30, 2006 and are submitted for your evaluation and consideration. We would like to emphasize that our audit was conducted for the purpose of expressing opinions on the aforementioned financial statements; therefore, the following comments are not necessarily all inclusive.

Combining Cash Accounts

While performing the audit on cash accounts, we noted that the City maintains separate cash accounts for all of the custodial accounts as well as several accounts for general operations. This requires that a significant amount of time be spent on the monthly accounting responsibilities and weakens the overall cash controls due to the number of accounts maintained. To save time and money and increase the efficiency of operations, we suggest that the accounts used for general operations be combined and otherwise eliminated. If it is necessary to track the cash balance of a particular program or fund, the features of the accounting software should be used to accomplish this task.

Expenditures in Excess of Appropriations

The City's budget for the 2005-2006 fiscal year was prepared in accordance with P.A. #621 with the following exceptions.

The Act provides that a local unit of government shall not incur expenditures in excess of the amount budgeted. During the year ended June 30, 2006, the City incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General Fund:			
Capital outlay	\$100,500	\$160,085	\$(59,585)
Debt service	40,600	60,151	(19,551)

Deficit Elimination Plan

Since the City's Recreation Fund continues to be in a deficit situation, the deficit elimination plan for this fund should be updated and the revised plan submitted to the State of Michigan for approval.

Page 2
City of Harbor Beach

The above recommendations are being made in an effort to improve the City's system of record keeping and to aid the City in conforming to State requirements. Each of the items noted above were discussed with the City's administration. If you have any questions regarding these recommendations, please contact us.

Nietzke & Faupel, PC

Nietzke & Faupel, P.C.
Pigeon, Michigan

August 23, 2006